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BEFORE THE DEPARTMENT OF BUSINESS OVERSIGHT
OF THE STATE OF CALIFORNIA

In the Matter of:)	CRD NO.: 147991
)	
THE COMMISSIONER OF BUSINESS)	STATEMENT IN SUPPORT OF ORDER TO
OVERSIGHT,)	DISCONTINUE VIOLATIONS PURSUANT
)	TO CORPORATIONS CODE SECTION 25249
Complainant,)	AND COMMISSIONER’S INTENT TO MAKE
v.)	ORDER FINAL
)	
MIRAE ASSET WEALTH MANAGEMENT)	(CORPORATIONS CODE SECTION 25251)
(USA) INC.,)	
)	
Respondent.)	
)	

Jan Lynn Owen, the Commissioner of Business Oversight (Commissioner), alleges and charges as follows:

- At all relevant times, Mirae Asset Wealth Management (USA) Inc. (Mirae) was a corporation registered with the State of Delaware and located at 555 South Flower Street, Suite 4410, Los Angeles, California 90071, and was an Investment Adviser, registered through the Central Registration Depository (CRD) with the assigned number 147991. On June 22, 2015, the Commissioner issued an investment adviser certificate to Mirae.
- At all relevant times, John Wun Jun Park (Park) was an Investment Adviser Representative, with the assigned CRD number 5160624, and was the Chief Compliance Officer and

Vice-President of Asset Allocation of Mirae.

3. At all relevant times, Paul Sangyop Lee (Lee) was an Investment Adviser Representative and Registered Representative of Mirae, with the assigned CRD number 5541067.

4. On or about July 13, 2016, the Commissioner began a regulatory examination of Mirae. The examination revealed 5 violations of the Corporate Securities Law of 1968 (CSL), found at Corporations Code section 25000 et seq. and the rules and regulations promulgated thereunder.

5. The violations included the following: 1) Mirae failed to maintain its financial records in violation of Corporations Code section 25241 and C.C.R., title 10, section 260.241.3, subdivisions (a)(7) and (e)(2); and 2) Mirae failed to promote fair, equitable, and ethical principles by recommending unsuitable investments in violation of Corporations Code section 25238 and C.C.R., title 10, section 260.238, subdivision (a).

6. Corporations Code section 25241 provides in pertinent part:

Every . . . investment adviser . . . shall make and keep accounts, correspondence, memorandums, papers, books and other records . . . as the commissioner by rule requires

7. C.C.R., title 10, section 260.241.3 requires:

(a) Every licensed investment adviser shall make and keep true, accurate and current the following books and records relating to such person's investment advisory business:

. . .

(7) Originals of all written communications received and copies of all written communications sent by such investment adviser relating to: (i) any recommendation made or proposed to be made and any advice given or proposed to be given, (ii) any receipt, disbursement or delivery of funds or securities, or (iii) the placing or execution of any order to purchase or sell any security . . .

. . .

(e)(2) Charter documents, minute books and stock certificate books of the investment adviser and of any predecessor, shall be maintained in the principal office of the investment adviser and preserved until at least three years after termination of the enterprise.

8. Corporations Code section 25238 provides, in pertinent part:

No investment adviser licensed under this chapter and no natural person associated with the investment adviser shall engage in

investment advisory activities, or attempt to engage in investment advisory activities, in this state in contradiction of such rules as the commissioner may prescribe designed to promote fair, equitable and ethical principles. (Emphasis added.)

9. C.C.R, title 10, section 260.238, subdivision (a) provides that the following activities do not promote fair, equitable and ethical principles:

Recommending to a client to whom investment supervisory, management or consulting services are provided the purchase, sale or exchange of any security without reasonable grounds to believe that the recommendation is suitable for the client on the basis of information furnished by the client after reasonable inquiry concerning the client’s investment objectives, financial situation and needs, and any other information known or acquired by the adviser after reasonable examination of such of the client’s records as may be provided to the adviser. (Emphasis added.)

10. The Department’s examiners found during the regulatory examination on July 13, 2016, that Mirae is a licensed investment adviser and as such is required under Corporations Code section 25241, “to make and keep accounts, correspondence, memorandums, papers, books and other records.”

11. During the regulatory examination of Mirae in July 2016, the Commissioner requested copies of books and records relating to Mirae’s investment advisory business, including originals of all written communications received and copies of all written communications sent by Mirae relating to any recommendation made or proposed to be made and any advice given or proposed to be given.

12. Mirae failed to maintain accurate books and records concerning client correspondence received and sent by Mirae relating to its investment recommendations made or proposed, and investment advice given or proposed.

13. In the same examination, the Commissioner requested to inspect the charter documents, minute books and stock certificate books of Mirae.

14. Mirae failed to provide and maintain its charter documents, minute books and stock certificate books at Mirae’s principal office.

Investor #1 – A.T.

18. Mirae provided the Commissioner a copy of A.T.'s client suitability & risk tolerance form signed on July 12, 2016. A.T. indicated he was retired and had a moderate risk tolerance, with an investment time horizon of 10 to 15 years.

20. Mirae and Lee recommended to A.T. to purchase ACF private notes without reasonable grounds to believe that these investments were suitable for A.T. on the basis of information furnished by the client. Mirae and Lee failed to conduct a reasonable inquiry concerning A.T.'s investment objectives, financial situations and needs.

Investor #2 – N.G.

21. On or about October 23, 2015, N.G. signed an investment management agreement with Mirae. On or around December 3, 2015, N.G. signed the Aequis Subscription Agreement and a courtesy copy of the agreement was sent to Park. On or around December 18, 2015, based on Lee's recommendation through Mirae, N.G. invested \$200,000.00 with Aequis. N.G. purchased two Aequis private notes – each note requiring an investment of \$100,000.00 with a 11 percent interest rate and maturity in 48 months. By March 2016, the Aequis private notes were declared an "unrealized loss" with a market value of zero. N.G. lost \$200,000.00 – 100 percent of her investment.

22. Mirae provided the Commissioner a copy of N.G.'s client suitability & risk tolerance form signed on April 11, 2016. N.G. was a 63-year-old caregiver with the primary objective to "accumulate assets for retirement," she expected a total long-term return of 11 to 15 percent and wanted "a portfolio containing some medium risk investments."

23. Mirae and Lee recommended to N.G. to purchase ACF private notes without reasonable grounds to believe that these investments were suitable for N.G. on the basis of information furnished by the client. Mirae and Lee failed to conduct a reasonable inquiry concerning N.G.'s investment objectives, financial situations and needs.

24. On or around September 26, 2016, Park submitted Mirae's due-diligence documentation in the form of an audit conducted on Aequis, which included the consolidated financial statements for Aequis's 2014 and 2015 fiscal years. The Commissioner was told by Park that Mirae failed to complete a thorough due-diligence process or make a reasonable inquiry into Aequis prior to recommending the ACF private notes to its clients.

25. Mirae failed to properly review the ACF due-diligence documentation in its possession – specifically the audit conducted by Deloitte & Touche LLP (Deloitte audit). The Deloitte audit gave a clear indication that investing in ACF was very risky. ACF private notes were not suitable because ACF purchased account receivables from companies that filed bankruptcy, stopped remitted payments for past due accounts, defaulted payments, and had other material adverse effects on ACF's financial position.

26. The Deloitte audit disclosed that Aequitas had business contracts with a company filing for bankruptcy, and ultimately Aequitas and its affiliates were negatively affected by the outstanding receivables owed to them by the company filing for bankruptcy.

27. Mirae and Lee did not have a reasonable basis for recommending Aequitas private notes to its clients, especially when the Deloitte audit gave a clear indication that investing in Aequitas was a risky investment due to ongoing financial issues with their business contracts.

28. The July 13, 2016 examination showed Mirae did not conduct a reasonable inquiry to the investors' investment objectives, financial situations, and needs before its clients lost their entire investments in ACF private notes. Mirae did not require its clients to complete suitability forms or risk tolerance questionnaires before Mirae started providing investment advice.

29. The examination also confirmed that in December 2015, two clients purchased ACF private notes based on Lee's recommendation. Lee, acting on Mirae's behalf, advised clients to buy ACF private notes even though Mirae failed to properly review ACF's offering materials. The clients lost 100 percent of their investments, for a combined investor loss of \$500,000.00.

30. Corporations Code section 25249 authorizes the Commissioner to issue an order directing any investment adviser to discontinue any violation of any provision of the Corporate Securities Law of 1968 and any rules and regulations promulgated thereunder. Corporations Code section 25249 provides:

If, after examination or investigation, the commissioner has reasonable grounds to believe that any broker-dealer or investment adviser has violated any law or rule binding upon it, the commissioner shall, by written order addressed to the broker-dealer or investment adviser, direct the discontinuance of the violation. The order shall be effective immediately, but shall not become final except in accordance with the provision of Section 25251.

31. Corporations Code section 25251 provides:

(a) No order issued pursuant to Section 25249 or 25250 may become final except after notice to the affected broker-dealer or investment adviser of the commissioner's intention to make the order final and of the reasons for the finding. The commissioner shall also notify the broker-dealer or investment adviser that upon receiving a request the matter shall be set for hearing to commence within 15 business days after receipt of the request. The broker-dealer or investment adviser may consent to have the hearing commence at a later date. If no hearing is requested within 30 days after the mailing or service of the

1 required notice, and none is ordered by the commissioner, the order
2 may become final without a hearing and the broker-dealer or
3 investment adviser shall immediately discontinue the practices named
4 in the order. If a hearing is requested or ordered, it shall be held in
5 accordance with the provisions of the Administrative Procedure Act
6 (Chapter 5 (commencing with Section 11500) of Part 1 of division 3 of
7 title 2 of the Government Code) and the commissioner shall have all of
8 the powers granted under that act. If, upon the conclusion of the
9 hearing, it appears to the commissioner that the broker-dealer or
10 investment adviser is conducting business in an unsafe or injurious
11 manner or is violating any law of this state, or any rule binding upon it,
12 the commissioner shall make the order of discontinuance final and the
13 broker-dealer or investment adviser shall immediately discontinue the
14 practices named in the order.

15 (b) The broker dealer or investment adviser may within 10 days after
16 an order is made final commence an action to restrain enforcement of
17 the order. If the enforcement of the order is not enjoined within 10
18 days by the court in which the action is brought, the broker-dealer or
19 investment adviser shall comply with the order.

20 32. By reason of the foregoing, Mirae has willfully violated Corporations Code section
21 25241; C.C.R, title 10, section 260.241.3, subdivisions (a)(7) and (e)(2); Corporations Code section
22 25238; and C.C.R, title 10, section 260.238, subdivision (a). Mirae as a licensee, was obligated to
23 have knowledge of, and to comply with, the provisions of the Corporate Securities Law of 1968 and
24 the regulations thereunder to maintain its investment adviser certificate. Therefore, pursuant to
25 Corporations Code section 25249, the Commissioner has issued an order directing Mirae to
26 discontinue violating Corporations Code section 25241; C.C.R, title 10, section 260.241.3,
27 subdivisions (a)(7) and (e)(2); Corporations Code section 25238; and C.C.R, title 10, section
28 260.238, subdivision (a).

WHEREFORE, good cause showing, and pursuant to Corporations Code section 25251, the
Commissioner hereby notifies Mirae of her intention to make final the Order to Discontinue
Violations Pursuant to Corporations Code section 25249 issued on March 8, 2018.

Dated: March 8, 2018
Los Angeles, CA

JAN LYNN OWEN
Commissioner of Business Oversight

By _____
Vanessa T. Lu
Counsel
Enforcement Division